

## **COMMENTARY ON TOWN FINANCES**

Given the current recession and the continuing news regarding declining federal, state, county, and Town revenues, it is to be expected that residents will be concerned about the current and future status of Town finances. A little history: when I arrived in September of 2002 the Town had committed to the reconstruction of Penn Place, a substantial rehabilitation of Weymouth Street and Kenilworth Avenue, the new Town street lights, and a significant contribution to cost of the reconstruction of Strathmore Avenue. This resulted in the planned drawing down of Town reserves to essentially Zero over a period of 1-2 years, depending on the length of time it took to complete these projects. Also, at that time these reserves were held as “Free Cash” in the Town treasury which was invested in the Montgomery County Pooled Investment Fund,

### What is “Free Cash?”

“Free Cash” comprises un-obligated funds in the Town’s treasury, funds against which no appropriation (obligation) has been made. For example: If the Town has \$250,000 in cash in the bank on July 1<sup>st</sup>, receives \$700,000 in revenues, budgets and spends \$750,000 through the fiscal year, and has \$50,000 in prior years’ capital appropriations yet unspent at the end of the fiscal year on June 30<sup>th</sup>, there will be \$150,000 of “Free Cash” remaining in the treasury ( $\$250,000 + \$700,000 - \$750,000 - \$50,000 = \$150,000$ ). These funds, or any portion thereof, may be incorporated in the Town budget at any time by ordinance, whereby they become encumbered (obligated), or can be left as they are (“Free Cash”). In either case, they are assets of the Town.

Some of you will recall the concerns about this drawdown of reserves expressed in discussions regarding adjustments to the FY 2003 budget and the adoption of the FY 2004 budgets. At that time, the Mayor and Council pointed out that both budgets anticipated positive cash flows, and that if future budgets were crafted in the same manner, the Town’s reserves would be quickly rebuilt. A policy of appropriating an operational reserve was adopted at that time, as well.

### Is there any difference between “Free Cash” and an appropriated reserve?

Yes, a big difference. At the end of any fiscal year “Free Cash” may vary depending on that year’s cash flow. An appropriated reserve must always be fully funded at the end of any fiscal year, so that if in one year \$50,000 is appropriated to the operating reserve and in the next year a further \$25,000 is similarly appropriated, at the end of that second fiscal year the Town’s treasury must contain \$75,000 in actual cash or other secure, liquid investments, which fund this reserve. As a matter of practice, the Town’s funds are currently managed to insure that the operating reserve and all other restricted funds (Penn Place tenant deposits, any restricted donations, etc.) are fully funded in the treasury at all times throughout the year. This is possible because of the “Free Cash” balance that the Town maintains, which can be drawn on for budgeted operating and capital expenditures that come due ahead of the receipt of budgeted revenues, which is typically the case in the months of July through September.

As of March 31<sup>st</sup>, 2009 the Town had \$580,400 cash on hand, held in the Town's checking accounts and the Montgomery County Pooled Investment Fund. We project a further \$133,700 in revenue and \$243,500 in expenditure through June 30<sup>th</sup>. Currently, there are \$144,600 in restricted funds, comprising \$125,000 in the operating reserve, \$15,000 in the Yeandle Park Fund, and \$4,600 in Penn Place tenant security deposits. Also, we have payables of \$4,400 and an anticipated unbudgeted expense for tree removal of \$4,500. There is also \$27,000 in prior year capital appropriations outstanding. This leaves a projected "Free Cash" balance at the end of the fiscal year of \$289,400.

So, in the intervening years from September 2002, the Town has been able to provide residents with continually improving levels of service on a day-to-day basis, make substantial capital, investments, establish a \$125,000 operating reserve, cut the Town's property tax rate by 5%, and still generate a surplus of over one-quarter of a million dollars. In the FY 2010 budget, the operating reserve is raised to \$175,000, so the combined cash reserves of the Town available will be in the neighborhood of \$320,000. Add in the budgeted operating contingency of \$30,000 and you have \$350,000, or 36% of the total adopted FY 2010 budget.

While the FY 2009 budget is projected to have a surplus of \$39,100, there will be a negative cash flow of \$53,000, due to the paying of prior years capital appropriations. The FY 2010 budget anticipates drawing \$37,100 from "Free Cash," a total draw of \$90,125 against accumulated "Free Cash" (already accounted for in the analysis above). This is a result of the recession's impact on the Town's cash flow. The FY 2010 budget is conservative, projecting a 13% reduction in revenues and a 16% reduction in operating expenditures. It is designed to produce a neutral to positive cash flow so that as we face what we project to be the most difficult years of FY 2011 and FY 2012, we will certainly have adequate reserves to support the current level of services provided to residents. We also expect to have adequate resources for modest capital expenditures – maintenance and minor improvements to Town facilities and infrastructure – and the capacity to provide matching funds for any grant opportunities that may come our way through federal and state stimulus programs.

All in all, we believe that the Town is in sound financial condition, and should emerge from these hard times in excellent shape, ready to take advantage of the improving economic situation that will arrive in the next two to five years.

As always, if you have questions or concerns about the budget or any other Town issue, please call the Town Office at 301 933-7488 or email us at garrett-park@comcast.net.

Ted Pratt  
Town Administrator/Clerk-Treasurer.